

CITY OF ALGONA, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2013

T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants

Table of Contents

| | | |
|---|-----------------|------------------|
| Officials | | <u>Page</u> 1 |
| Independent Auditor's Report | | 2-3 |
| Management's Discussion and Analysis | | 4-10 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Cash Basis Statement of Activities and Net Position | A | 11 |
| Governmental Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and | | |
| Changes in Cash Balances | B | 12 |
| Proprietary Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and | | |
| Changes in Cash Balances | C | 13 |
| Notes to Financial Statements | | 14-25 |
| Other Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements | | |
| And Changes in Balances – Budget and Actual (Cash Basis) – | | |
| All Governmental Funds and Proprietary Funds | | 26 |
| Notes to Other Information – Budgetary Reporting | | 27 |
| Supplementary Information: | <u>Schedule</u> | |
| Schedule of Cash Receipts, Disbursements and Changes | | |
| In Cash Balances – Nonmajor Governmental Funds | 1 | 28 |
| Schedule of Cash Receipts, Disbursements and Changes | | |
| In Cash Balances – Nonmajor Proprietary Funds | 2 | 29 |
| Schedule of Indebtedness | 3 | 30 |
| Bond and Note Maturities | 4 | 31 |
| Schedule of Receipts by Source and Disbursements by | | |
| Function – All Governmental Funds | 5 | 32 |
| Schedule of Financial Information (Unaudited) | | 33-35 |
| Independent Auditor's Report on Internal Control Over | | |
| Financial Reporting and on Compliance and Other Matters | | |
| Based on an Audit of Financial Statements Performed in Accordance | | |
| With Government Auditing Standards | | 36-37 |
| Schedule of Findings | | 38-40 |

CITY OF ALGONA, IOWA

OFFICIALS

| | | |
|-----------------|--------------------|---------------|
| Lynn Kueck | Mayor | December 2017 |
| Chad Besch | Council Member | December 2015 |
| Sara Curtis | Council Member | December 2015 |
| Josh Aanonson | Council Member | December 2017 |
| Harley Kohlhaas | Council Member | December 2017 |
| Kim Weaver | Council Member | December 2017 |
| Paige Hollinger | Council Member | December 2105 |
| Keri Navratil | City Administrator | Indefinite |
| Rexann McEnroe | Clerk | Indefinite |
| Paul Doster | Attorney | Indefinite |



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Algona, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. Generally Accepted Auditing Standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Algona as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Algona's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed qualified opinions on the financial statements for the years ended June 30, 2012, 2011, 2010, 2009, 2008, 2007, 2005 and 2004. An adverse opinion was issued for the financial statements for the year ended June 30, 2006. All of financial statements during those years were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

The other information, Management's Discussion and Analysis, the budgetary comparison information, and the schedule of financial information on pages 4-10, 26-27, and pages 33-35 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2014 on our consideration of the City of Algona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Algona's internal control over financial reporting and compliance.

T.P. Anderson & Company, P.C.

February 12, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Algona, Iowa (the City) provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City of Algona's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 6%, or approximately \$394,000, from fiscal 2012 to fiscal 2013. The decrease in receipts was the result of bond proceeds received in fiscal year 2012 and none in 2013.
- Disbursements increased approximately \$895,000 in fiscal 2013 from fiscal 2012. Capital project disbursements increased approximately \$568,000, public safety disbursements increased \$285,000, while disbursements for public works decreased by approximately \$144,000.
- The City's total cash basis net position decreased \$430,000 from June 30, 2012 to June 30, 2013. Of this amount, the assets of the governmental activities decreased approximately \$218,000 and the assets of the business type activities decreased by approximately \$212,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position – Cash Basis. This statement provides information about the activities of the City as a whole and presents an overview of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year; it also provides detailed property tax information.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position – Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Position – Cash Basis presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-Type Activities include the sanitary sewer system, the storm sewer system, the ambulance service, and the housing program fund. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

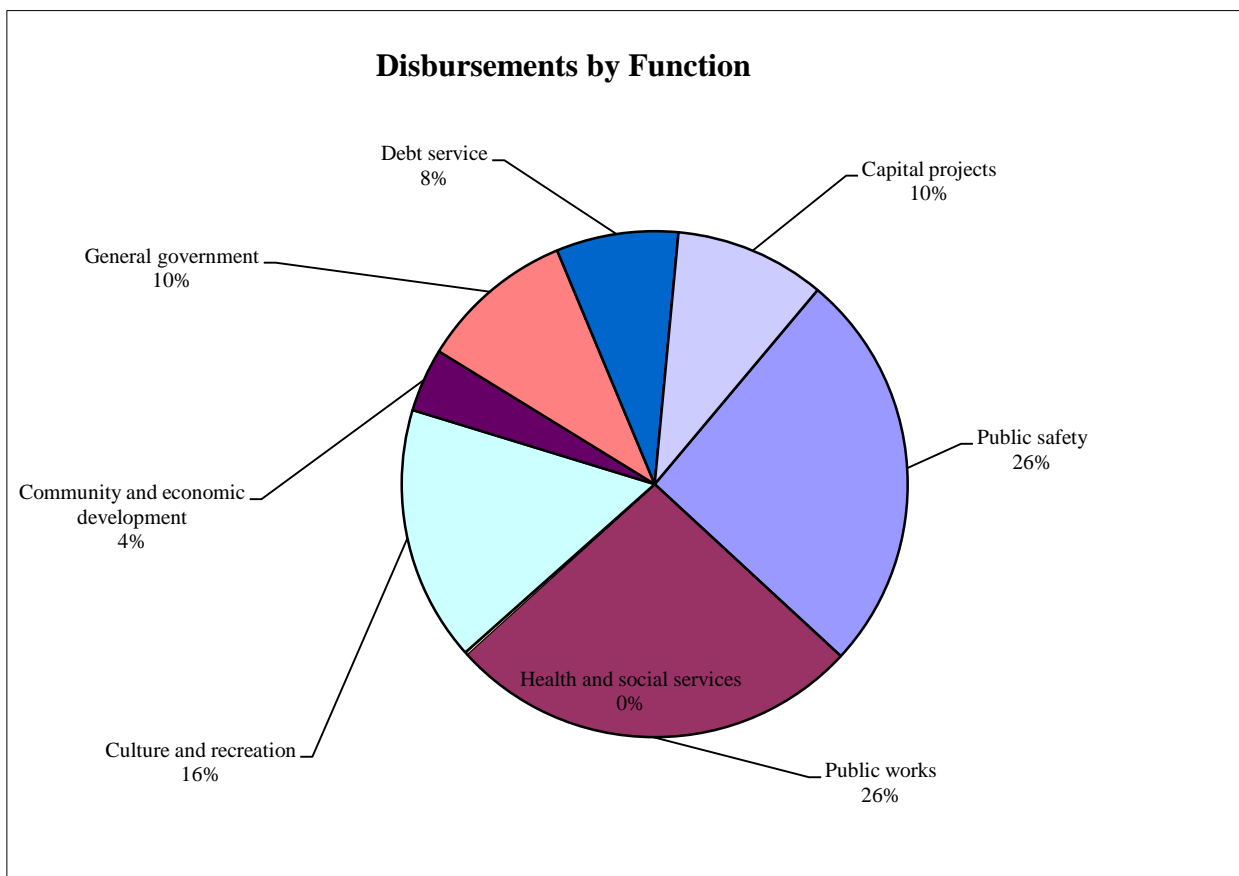
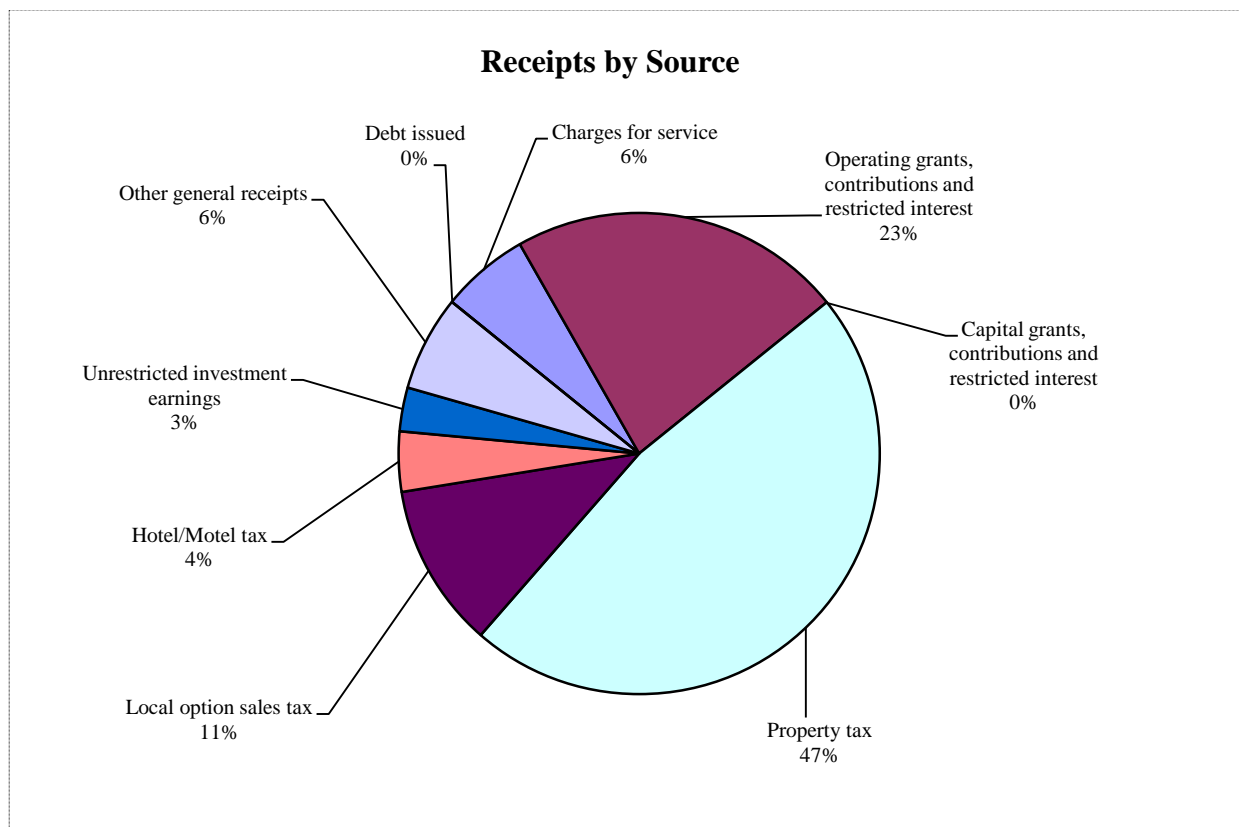
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business-type activities. The City maintains four Enterprise Funds to provide separate information for the Sewer, Storm Sewer, Ambulance, and Housing Funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$4.9 million to \$4.7 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

| Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands) | | |
|---|---------------------|-----------------|
| | Year ended June 30, | |
| | 2013 | 2012 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 371 | \$ 480 |
| Operating grants, contributions and restricted interest | 896 | 808 |
| Capital grants, contributions and restricted interest | - | 161 |
| General receipts: | | |
| Property tax | 2,953 | 2,916 |
| Local option sales tax | 690 | 555 |
| Hotel/motel tax | 252 | 244 |
| Grants and contributions not restricted to specific purposes | 508 | 451 |
| Unrestricted interest on investment | 8 | 14 |
| Other general receipts | 577 | 381 |
| Debt issued | - | 639 |
| Total receipts | <u>6,255</u> | <u>6,649</u> |
| Disbursements: | | |
| Public safety | 1,720 | 1,435 |
| Public works | 1,765 | 1,909 |
| Health and social services | 10 | 10 |
| Culture and recreation | 1,088 | 1,247 |
| Community and economic development | 271 | 123 |
| General government | 662 | 699 |
| Debt service | 521 | 287 |
| Capital projects | 642 | 74 |
| Total disbursements | <u>6,679</u> | <u>5,784</u> |
| Increase (decrease) in cash basis net position before transfers | (424) | 865 |
| Transfers, net | <u>206</u> | <u>264</u> |
| Increase (decrease) in cash basis net position | (218) | 1,129 |
| Cash basis net position beginning of year | <u>4,918</u> | <u>3,789</u> |
| Cash basis net position end of year | <u>\$ 4,700</u> | <u>\$ 4,918</u> |



The City's total receipts for governmental activities decreased by 6%, or approximately \$394,000. The total cost of all programs and services increased by approximately \$895,000 or 13%, with no new programs added

this year. The City did however, complete a number of large projects in fiscal year 2013 such as the downtown alleyway, community sidewalks, sample street, and the airport taxiway project.

The cost of all governmental activities this year was approximately \$6.7 million compared to \$5.7 million last year. However, as shown in the Statement of Activities and Net Position on page 11, the amount taxpayers ultimately financed for these activities was only \$5.4 million because some of the cost was paid by those directly benefited from the programs (\$371,428) or by other governments and organizations that subsidized certain programs with grants, receipts, including intergovernmental aid and fees for service (\$896,063). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$3.9 million in taxes (some of which could only be used for certain programs), and with other receipts, such as interest and general entitlements.

| Changes in Cash Basis Net Position of Business-Type Activities (Expressed in Thousands) | | |
|--|---------------------|--------------|
| | Year ended June 30, | |
| | 2013 | 2012 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Sewer | \$ 838 | 809 |
| Storm Sewer | 128 | 122 |
| Ambulance | 571 | 541 |
| Housing | 33 | 41 |
| General receipts: | | |
| Unrestricted interest on investments | 1 | 3 |
| Intergovernmental (sewer) | - | 51 |
| Miscellaneous | - | 7 |
| Debt issued | - | 657 |
| Total receipts | <u>1,571</u> | <u>2,231</u> |
| Disbursements: | | |
| Sewer | 853 | 1,508 |
| Storm Sewer | 177 | 113 |
| Ambulance | 526 | 553 |
| Housing | 21 | 26 |
| Total disbursements and transfers | <u>1,577</u> | <u>2,200</u> |
| Increase in cash basis net position before transfers | (6) | 31 |
| Transfers | <u>(206)</u> | <u>(264)</u> |
| Increase (decrease) in cash basis net position | (212) | (233) |
| Cash basis net position beginning of year | <u>1,591</u> | <u>1,824</u> |
| Cash basis net position end of year | <u>\$ 1,379</u> | <u>1,591</u> |

Total business type activities receipts declined in fiscal year 2013 to approximately \$1.6 million from approximately \$2.2 last year. The reduction is mainly due to grant and bond proceeds received in previous year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Algona completed the year, its governmental funds reported a combined fund balance of \$4,700,412, a decrease of \$217,586 from last year's total of \$4,917,998. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$16,000 to \$2,658,000, due to planned expenditures that were budgeted, but ended up not being necessary.
- The Employee Benefits Fund Balance collected \$736,368 in property tax which was used to fund employee benefits.
- The Local Option Sales Tax Revenue Fund (LOST) increased from \$792,403 to \$951,830 during the fiscal year. The increase of \$160,000 was due to sales tax collections exceeding projected revenues as planned.
- The Road Use Tax Fund increased its cash balance in 2013 by approximately \$145,000. The increase is due to the regular operations of the fund.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased by \$221,000 to \$658,000, due primarily to the capital expenditures for the City's wastewater treatment facilities.
- The Ambulance Fund had an increase in fund balance of 45,000, which included \$13,000 in capital expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 20, 2013 and resulted in an increase in operating disbursements in several budgeted areas, most significantly in public works and general government budget areas. The amendment also increased budgeted cash receipts from areas such as other city tax, use of money and property and miscellaneous. The City did not exceed budgeted amounts, as amended, for the fiscal year ended June 30, 2013.

COMPONENT UNIT

Condensed financial information has been presented for Algona Municipal Utilities (see Note 14). Complete financial statements for Algona Municipal Utilities for the year ended December 31, 2012 are available at 104 West Call Street, Algona, Iowa.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$4 million in bonds and other long-term debt, compared to approximately \$4.5 million last year, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|--|---------------------|----------|
| | Year ended June 30, | |
| | 2013 | 2012 |
| General obligation bonds | \$ 2,388 | \$ 2,787 |
| Revenue notes | 1,661 | 1,741 |
| Total | \$ 4,049 | \$ 4,528 |

Debt decreased as a result of paying down city debts as scheduled.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,387,925 is significantly below its constitutional debt limit of \$15.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In completing the fiscal year 2014 budget the elected and appointed officials of Algona examined economic conditions to help determine estimated revenues and expenditures. The current economy in Algona has remained steady with no layoffs or shutdowns that have plagued other communities around the country.

Unemployment for Kossuth County decreased from one year ago. The current rate is 2.8% versus 3.5% in 2012. The county average is well below the state average, which is 5.2%. During the year revenues tied to the economy remained steady. Local option sales tax receipts exceeded estimates. Additionally, current changes in Iowa Code on utility franchise fees have assured that these revenues will remain a consistent revenue stream for the City of Algona.

Budget projections for fiscal year 2014/15 have not yet been completed. Revenues are expected to remain steady despite the commercial and industrial property tax rollback. The City expects the shortfall in property tax due to the rollback to be replaced by backfill funds provided by the State of Iowa. Taxable valuations have risen slightly, by approximately 2%. Road Use Tax receipts are expected to remain the same due to gas tax revenues charged by the State of Iowa. Capital projects for streets and roads will receive subsidies from the City's Local Option Sales Tax Fund.

It is expected that the property tax levy will remain for the most part, the same for fiscal year 2014/15 as debt issuances are retired. However, the City is planning two major capital projects, to replace the current city hall and to remodel the existing library. The full effect on the levy is not yet known, but will increase the rate beyond its current level.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Algona's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Rexann McEnroe, City Clerk, 112 West Call Street, Algona, Iowa 50511.

Basic Financial Statements

CITY OF ALGONA, IOWA

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

| Functions/Programs | Disbursements | Program Receipts | | |
|--|---------------|---------------------|--|--|
| | | Charges for Service | Operating Grants Contributions and Restricted Interest | Capital Grants Contributions and Restricted Interest |
| Governmental activities: | | | | |
| Public safety | \$ 1,719,808 | - | 151,219 | - |
| Public works | 1,764,657 | - | 724,822 | - |
| Health and social services | 9,937 | - | - | - |
| Culture and recreation | 1,088,260 | 371,428 | 20,022 | - |
| Community and economic development | 271,367 | - | - | - |
| General government | 661,605 | - | - | - |
| Debt service | 520,892 | - | - | - |
| Capital projects | 642,656 | - | - | - |
| Total government activities | 6,679,182 | 371,428 | 896,063 | - |
| Business type activities: | | | | |
| Sewer | 853,158 | 837,544 | - | - |
| Storm Sewer | 176,709 | 128,051 | - | - |
| Ambulance | 526,082 | 570,528 | - | - |
| Housing | 20,741 | 33,465 | - | - |
| Total business type activities | 1,576,690 | 1,569,588 | - | - |
| Total | \$ 8,255,872 | 1,941,016 | 896,063 | - |
| General Receipts | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Tax increment financing | | | | |
| Debt service | | | | |
| Local option sales tax | | | | |
| Hotel/motel and franchise tax | | | | |
| Grants and contributions not restricted to specific purposes | | | | |
| Unrestricted interest on investments | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net position | | | | |
| Cash beginning of year | | | | |
| Cash end of year | | | | |
| Cash Basis Net Position | | | | |
| Restricted | | | | |
| Nonexpendable: | | | | |
| Cemetery perpetual care | | | | |
| Library endowment | | | | |
| Expendable: | | | | |
| Streets | | | | |
| Debt service | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |

See notes to financial statements

Exhibit A

| Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|-----------------------------|-------------|
| Governmental Activities | Business Type Activities | Total |
| (1,568,589) | - | (1,568,589) |
| (1,039,835) | - | (1,039,835) |
| (9,937) | - | (9,937) |
| (696,810) | - | (696,810) |
| (271,367) | - | (271,367) |
| (661,605) | - | (661,605) |
| (520,892) | - | (520,892) |
| (642,656) | - | (642,656) |
| (5,411,691) | - | (5,411,691) |
| - | (15,614) | (15,614) |
| - | (48,658) | (48,658) |
| - | 44,446 | 44,446 |
| - | 12,724 | 12,724 |
| - | (7,102) | (7,102) |
| (5,411,691) | (7,102) | (5,418,793) |
| 2,559,294 | - | 2,559,294 |
| 43,960 | - | 43,960 |
| 349,403 | - | 349,403 |
| 689,914 | - | 689,914 |
| 252,325 | - | 252,325 |
| 507,650 | - | 507,650 |
| 8,237 | 1,350 | 9,587 |
| 577,095 | - | 577,095 |
| 206,227 | (206,227) | - |
| 5,194,105 | (204,877) | 4,989,228 |
| (217,586) | (211,979) | (429,565) |
| 4,917,998 | 1,590,874 | 6,508,872 |
| \$ 4,700,412 | 1,378,895 | 6,079,307 |
| \$ 51,850 | - | 51,850 |
| 140,000 | - | 140,000 |
| 510,697 | - | 510,697 |
| 75,918 | - | 75,918 |
| 2,080,285 | - | 2,080,285 |
| 1,841,662 | 1,378,895 | 3,220,557 |
| \$ 4,700,412 | 1,378,895 | 6,079,307 |

CITY OF ALGONA, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

| | | Special Revenue | | | Other Nonmajor Governmental Funds |
|--|---------------------|----------------------|-----------------|---------------------------|--|
| | General | Employee Benefits | Road Use Tax | Local Option Sales Tax | |
| Receipts: | | | | | |
| Property tax | \$ 1,793,329 | 736,368 | - | - | 422,960 |
| Other city tax | 252,325 | - | - | 689,914 | - |
| Licenses and permits | 38,544 | - | - | - | - |
| Use of money and property | 178,042 | - | - | 633 | 5,668 |
| Intergovernmental | 844,282 | - | 532,458 | - | 26,973 |
| Charges for service | 371,428 | - | - | - | - |
| Special assessments | 76,011 | - | - | - | - |
| Miscellaneous | 281,006 | - | - | - | - |
| | <u>3,834,967</u> | <u>736,368</u> | <u>532,458</u> | <u>690,547</u> | <u>455,601</u> |
| Disbursements: | | | | | |
| Public safety | 1,690,213 | - | - | - | 29,595 |
| Public works | 1,351,490 | - | 387,495 | - | 25,672 |
| Health and social services | 9,937 | - | - | - | - |
| Culture and recreation | 1,088,260 | - | - | - | - |
| Community and economic development | 226,955 | - | - | - | 44,412 |
| General government | 661,605 | - | - | - | - |
| Debt service | - | - | - | - | 520,892 |
| Capital projects | - | - | - | - | 642,656 |
| | <u>5,028,460</u> | <u>-</u> | <u>387,495</u> | <u>-</u> | <u>1,263,227</u> |
| Excess (deficiency) of receipts over (under) disbursements | (1,193,493) | 736,368 | 144,963 | 690,547 | (807,626) |
| Other financing sources (uses): | | | | | |
| Sale of Assets | 5,428 | - | - | - | - |
| Operating transfers in | 1,394,221 | - | - | 30,000 | 297,868 |
| Operating transfers out | (190,263) | (736,368) | - | (561,120) | (28,111) |
| | <u>1,209,386</u> | <u>(736,368)</u> | <u>-</u> | <u>(531,120)</u> | <u>269,757</u> |
| Net change in cash balances | 15,893 | - | 144,963 | 159,427 | (537,869) |
| Balance beginning of year | <u>2,642,247</u> | <u>-</u> | <u>365,734</u> | <u>792,403</u> | <u>1,117,614</u> |
| Balance end of year | <u>\$ 2,658,140</u> | <u>-</u> | <u>510,697</u> | <u>951,830</u> | <u>579,745</u> |
| Cash basis fund balance | | | | | |
| Nonspendable | \$ - | - | - | - | 191,850 |
| Restricted for: | | | | | |
| Debt service | - | - | - | - | 75,918 |
| Streets | - | - | 510,697 | - | - |
| Capital projects | - | - | - | - | 158,572 |
| Other purposes | 95,308 | - | - | 951,830 | 156,381 |
| Committed | 511,059 | - | - | - | - |
| Assigned | 153,794 | - | - | - | - |
| Unassigned | <u>1,897,979</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,976)</u> |
| Total cash basis fund balances | <u>\$ 2,658,140</u> | <u>-</u> | <u>510,697</u> | <u>951,830</u> | <u>579,745</u> |

See notes to financial statements.

Exhibit B

| Total |
|------------------|
| 2,952,657 |
| 942,239 |
| 38,544 |
| 184,343 |
| 1,403,713 |
| 371,428 |
| 76,011 |
| 281,006 |
| <u>6,249,941</u> |
| 1,719,808 |
| 1,764,657 |
| 9,937 |
| 1,088,260 |
| 271,367 |
| 661,605 |
| 520,892 |
| 642,656 |
| <u>6,679,182</u> |
| (429,241) |
| 5,428 |
| 1,722,089 |
| (1,515,862) |
| <u>211,655</u> |
| (217,586) |
| <u>4,917,998</u> |
| <u>4,700,412</u> |
| 191,850 |
| 75,918 |
| 510,697 |
| 158,572 |
| 1,203,519 |
| 511,059 |
| 153,794 |
| <u>1,895,003</u> |
| <u>4,700,412</u> |

CITY OF ALGONA, IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

| | Sewer | Ambulance | Other Nonmajor Proprietary Funds | Total |
|---|------------|-----------|---|-----------|
| Receipts | | | | |
| Charges for service | \$ 837,544 | 570,528 | 161,516 | 1,569,588 |
| Disbursements | | | | |
| Total operating disbursements | 544,677 | 513,108 | 56,208 | 1,113,993 |
| | 544,677 | 513,108 | 56,208 | 1,113,993 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 292,867 | 57,420 | 105,308 | 455,595 |
| Non-operating receipts (disbursements): | | | | |
| Interest on investments | 727 | 367 | 256 | 1,350 |
| Capital Expenditures | (308,481) | (12,974) | (141,242) | (462,697) |
| Net non-operating receipts (disbursements) | (307,754) | (12,607) | (140,986) | (461,347) |
| Excess of receipts over disbursements | (14,887) | 44,813 | (35,678) | (5,752) |
| Other financing sources (uses): | | | | |
| Operating transfers out | (206,227) | - | - | (206,227) |
| | (206,227) | - | - | (206,227) |
| Net change in cash balances | (221,114) | 44,813 | (35,678) | (211,979) |
| Balance beginning of year | 878,931 | 535,122 | 176,821 | 1,590,874 |
| Balance end of year | \$ 657,817 | 579,935 | 141,143 | 1,378,895 |
| Cash Basis Fund Balances | | | | |
| Unrestricted | \$ 657,817 | 579,935 | 141,143 | 1,378,895 |
| | \$ 657,817 | 579,935 | 141,143 | 1,378,895 |

See notes to financial statements.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Algona is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides sewer, storm sewer, and ambulance services to its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Algona has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has a component unit, Algona Municipal Utilities, meeting this definition and is described in the following paragraph. .

Discretely Presented Component Unit

The Algona Municipal Utilities Board, established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with the criteria set by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial statements presented in Note 14 were prepared accounting in conformity with accounting principles generally accepted in the United States. Complete financial statements, for the year ended December 31, 2012, can be obtained from the Municipal Utilities administration office, P.O. Box 10, 104 West Call Street, Algona, IA 50511.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Kossuth County Emergency Management Commission, Kossuth County E911 Board, and the North Iowa Council of Governments.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Position – Cash Basis reports information on all the nonfiduciary activities of the City. For the most part, the effect

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

This Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Employee Benefits Fund is used to account for property tax levied specifically for employee benefits expenditures.

The Road Use Tax Fund is used to account for the road use tax received from the State of Iowa and the use of that money.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

The Local Option Sales Tax (LOST) Fund is utilized to account for the local option sales tax receipts and disbursements.

The City reports the following major proprietary funds:

The Ambulance Fund accounts for the operation and maintenance of the City's ambulance system.

The Sewer Fund accounts for operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Algona maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the accounting principles generally accepted in the United States.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Committed – Amounts restricted to specific purposes when constraints placed on the use of resources are internally imposed in formal action by the City Council.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

F. Subsequent Events

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through February 12, 2014, the date the financial statements were issued.

(2) Cash and Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust (IPAIT) which are valued at amortized cost of \$395,175, pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated. More than 6% of the City's total cash and investments at June 30, 2013 were invested with IPAIT.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for Algona's general obligation bonds and revenue bonds are as follows:

| Year Ending June 30. | General Obligation Notes | | Revenue Bonds | | Total | |
|----------------------------|--------------------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2014 | 340,487 | 26,948 | 83,000 | 49,827 | 423,487 | 76,775 |
| 2015 | 345,487 | 24,968 | 86,000 | 47,337 | 431,487 | 72,305 |
| 2016 | 350,487 | 22,286 | 89,000 | 44,757 | 439,487 | 67,043 |
| 2017 | 360,487 | 18,888 | 92,000 | 42,087 | 452,487 | 60,975 |
| 2018 | 360,487 | 14,862 | 95,000 | 39,327 | 455,487 | 54,189 |
| 2019-2023 | 630,490 | 18,074 | 521,000 | 152,085 | 1,151,490 | 170,159 |
| 2024-2028 | - | - | 611,000 | 68,715 | 611,000 | 68,715 |
| 2029-2031 | - | - | 83,903 | 2,517 | 83,903 | 2,517 |
| | <u>\$ 2,387,925</u> | <u>\$ 126,026</u> | <u>\$ 1,660,903</u> | <u>\$ 446,652</u> | <u>\$ 4,048,828</u> | <u>\$ 572,678</u> |

Revenue Notes

The City has pledged future sewer customer receipts net of specific operating disbursements to repay \$2,151,000 in revenue bonds issued in September 2010. Proceeds from the notes provided financing for the improvements to the wastewater treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the notes are expected to require 46% of net receipts. The total principal and interest remaining to be paid on the notes is \$2,107,555. For the current year, principal and interest paid and total customer net receipts were \$132,227 and \$292,867, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) The notes require the system generate net revenues sufficient to 110% of the current year principal and interest installment.

A summary of changes in long-term debt for the year ended June 30, 2013 is as follows:

| | General Obligation Bonds | Revenue Bonds | Total |
|----------------------------|--------------------------------|------------------|------------------|
| Balance, beginning of year | \$ 2,741,368 | 1,740,903 | 4,482,271 |
| Increases | - | - | - |
| Decreases | <u>353,443</u> | <u>80,000</u> | <u>433,443</u> |
| Balance, end of year | <u>\$ 2,387,925</u> | <u>1,660,903</u> | <u>4,048,828</u> |

Interest rates on the general obligation bonds range from 0.00 to 2.00%. Interest rates on the revenue bonds were 3.00%.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual salary and the City is required to contribute 8.67% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$167,619, \$154,850, and \$143,272 respectively, equal to the required contributions for each year.

The City maintains a pension plan for police personnel hired prior to March 1, 1967 and accounts for the pension in the Police Pension Fund. The plan is financed by property taxes levied by the City. The plan covers two retired individuals and has been closed to new participants since March 1, 1967. For the year ended June 30, 2013, the City contributed \$29,595 to the plan and the participants did not contribute to the plan.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 39 active members and 3 inactive member in the plan. Participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with TrueNorth. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are approximately \$395 for single coverage and approximately \$1,205 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$387,468 and plan members eligible for benefits contributed approximately \$45,228 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and personal leave hours for subsequent use. Earned vacation is paid when used or when employment is terminated upon retirement or death. These accumulations are not recognized as expenditures by the City until they are used or paid.

Certain unused sick leave, while not payable to a City employee upon retirement, may be credited to a “benefit account”. Amounts credited to the “benefit account” are based on an employee’s pay rate, their accumulated sick leave hours, and their years of service. Funds deposited to these accounts may be used by a former employee for certain health care related expenses.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

The City's approximate liability for earned vacation and unused accumulated sick leave at June 30, 2013, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|--------------------------|-------------------|
| Vacation | \$ 92,154 |
| Sick Leave | 414,148 |
| Balance at June 30, 2013 | <u>\$ 506,302</u> |

This liability has been computed based on rates of pay in effect at June 30, 2013.

(7) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2013 is as follows:

| <u>Transfer In</u> | <u>Transfer From</u> | <u>Amount</u> |
|--------------------|------------------------------------|---------------------|
| General | Local Option Sales Tax | \$ 561,120 |
| | Trust and Agency-Employee Benefits | 736,368 |
| | Capital Project | 28,111 |
| | Enterprise-Sewer | <u>68,622</u> |
| | | 1,394,221 |
| LOST | General | <u>30,000</u> |
| | | 30,000 |
| Debt Service | General | 87,164 |
| | Enterprise-Sewer | <u>137,605</u> |
| | | 224,769 |
| Capital Projects | General | <u>73,099</u> |
| | | 73,099 |
| | | <u>\$ 1,722,089</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Local Government Risk Pool

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official's liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 was \$170,609.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The airport manager carries coverage for airport manager liability and proof of this coverage is provided to the City. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(9) Property Taxes

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Algona. Property taxes become liens on property as of July 1, 2012 and are payable in September 2012 and March 2013 of the fiscal year. The valuation for the taxes were based on January 1, 2011 assessed property valuations, and was based on a certified budget from March of 2012.

(10) Deficit Fund Balance

The Federal Grant Fund had a deficit balance of \$2,976 at June 30, 2013. The deficit fund balance in the Federal Grant Fund was the result of the airport project costs exceeding the grants dollars received. This deficit will be eliminated by future grant receipts.

(11) Committed and Assigned Fund Balance

The general fund included restricted funds of \$95,308, committed funds of \$511,059 and assigned funds of \$153,794 at June 30, 2013. The detail of these amounts is as follows:

| <u>Restricted</u> | <u>Amount</u> |
|--------------------------|-------------------|
| Economic development | \$ 46,501 |
| K-9 | 2,030 |
| Fire | 38,593 |
| Cemetery | 8,184 |
| Balance at June 30, 2013 | <u>\$ 95,308</u> |
| <hr/> | |
| <u>Committed</u> | <u>Amount</u> |
| TV Grant | \$ 139,045 |
| Revolving Loan Fund | 362,118 |
| Sick Leave Conversion | 9,896 |
| Balance at June 30, 2013 | <u>\$ 511,059</u> |
| <hr/> | |
| <u>Assigned</u> | <u>Amount</u> |
| Drug Abuse Education | \$ 18,847 |
| Self Insurance | 72,075 |
| Airport - FAA | 10,114 |
| Aquatic Center | 52,758 |
| Balance at June 30, 2013 | <u>\$ 153,794</u> |

(12) Contracts/Commitments

The City agreed in 2008 to contribute \$200,000 over the next five years to assist the local YMCA in a \$4.0 million dollar project to construct a new indoor swimming pool. The City's commitment was paid in total during the year ended June 30, 2013. In 2012, the City agreed to contribute \$30,000 to the Motor Sports Museum over a period of five years. The amount remaining on this commitment is \$18,000 at June 30, 2013.

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

(13) Operating Leases

The City leases a copy machine under an operating lease agreement signed in August 2010 calling for 60 monthly payments of \$232. Future minimum lease payments due on this above operating lease is as follows:

| Year Ended June 30, | Amount |
|---------------------|-----------------|
| 2014 | \$ 2,784 |
| 2015 | 2,784 |
| 2016 | <u>232</u> |
| Total | <u>\$ 5,800</u> |

(14) Algona Municipal Utilities

The Algona Municipal Utilities (Utility) provides water, electric, and communication services for the City of Algona, Iowa. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information, from the Utility's financial statements which were prepared in accordance with accounting principles generally accepted in the United States of America, for its discretely presented component unit. Following is the condensed financial information for the Utility for the year ended December 31, 2012.

| Condensed Statements of Net Position | | | |
|---|------------------------|---------------------|------------------------------|
| | Electric Department | Water Department | Communications Department |
| Assets | | | |
| Current assets | \$ 4,601,619 | 679,182 | 1,395,629 |
| Capital assets, net of accumulated depreciation | 24,872,297 | 3,661,106 | 3,279,819 |
| Other | <u>13,005,370</u> | <u>139,446</u> | <u>235,192</u> |
| Total assets | <u>42,479,286</u> | <u>4,479,734</u> | <u>4,910,640</u> |
| Liabilities | | | |
| Current liabilities | 3,248,281 | 182,062 | 1,020,947 |
| Other liabilities | <u>14,263,342</u> | <u>1,188,386</u> | <u>5,314,315</u> |
| Total liabilities | <u>17,511,623</u> | <u>1,412,522</u> | <u>6,335,262</u> |

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Net position

| | | | |
|---|-----------------------------|-------------------------|---------------------------|
| Invested in capital assets, net of related debt | 16,918,836 | 2,431,106 | (160,181) |
| Restricted – expendable | 1,574,675 | 134,039 | - |
| Unrestricted (deficit) | <u>6,474,152</u> | <u>544,141</u> | <u>(1,264,441)</u> |
| Total net position | <u>\$ 24,967,663</u> | <u>3,109,286</u> | <u>(1,424,622)</u> |

Condensed Statements of Income

| | Electric Department | Water Department | Communications Department |
|---|-----------------------------|-------------------------|------------------------------|
| Operating revenues: | | | |
| Electric sales | \$ 10,771,761 | - | - |
| Water sales | - | 1,016,959 | - |
| Communication sales | - | - | 3,457,646 |
| Total operating revenues | <u>\$ 10,771,761</u> | <u>1,016,959</u> | <u>3,457,646</u> |
| Operating expenses: | | | |
| Production – power/water/programming | \$ 7,199,101 | 161,834 | 1,530,602 |
| Depreciation | 1,402,589 | 159,346 | 366,352 |
| Transmission and distribution | 411,205 | 90,686 | 193,466 |
| Other | <u>1,720,299</u> | <u>328,944</u> | <u>969,982</u> |
| Total operating expenses | <u>10,733,194</u> | <u>740,810</u> | <u>3,060,402</u> |
| Operating income | <u>38,567</u> | <u>276,149</u> | <u>397,244</u> |
| Non-operating revenues (expenses): | | | |
| Interest income | 143,819 | 2,207 | 2,336 |
| Interest expense | (323,958) | (39,662) | (208,865) |
| Other non-operating expenses | <u>(231,442)</u> | <u>(24,612)</u> | <u>(180,111)</u> |
| Total non-operating expenses | <u>(411,581)</u> | <u>(62,067)</u> | <u>(386,640)</u> |
| Net income (loss) | <u>\$ (373,014)</u> | <u>214,082</u> | <u>10,604</u> |

Condensed Statements of Changes in Net Position

| | Electric Department | Water Department | Communications Department |
|--|-----------------------------|----------------------------|------------------------------|
| Net position (deficit) beginning of year | \$ 25,340,677 | \$ 2,895,204 | \$ (1,435,226) |
| Net income (loss) | <u>(373,014)</u> | <u>214,082</u> | <u>10,604</u> |
| Net position end of year | <u>\$ 24,967,663</u> | <u>\$ 3,109,286</u> | <u>\$ (1,424,622)</u> |

CITY OF ALGONA, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2013

| Condensed Statements of Cash Flows | | | |
|---|------------------------|---------------------|------------------------------|
| | Electric Department | Water Department | Communications Department |
| Cash flows from operating activities | \$ 2,030,869 | \$ 440,921 | \$ 603,483 |
| Cash flows from non-capital Financing activities | (272,997) | (269) | - |
| Cash flows from capital and related Financing activities | (7,139,292) | (796,828) | (599,398) |
| Cash flows from investing activities | <u>(153,014)</u> | <u>22,108</u> | <u>7,896</u> |
| Increase in cash | (5,534,434) | (334,068) | 11,981 |
| Cash - beginning of year | <u>15,926,669</u> | <u>983,708</u> | <u>1,081,859</u> |
| Cash – end of year | <u>\$ 10,392,235</u> | <u>\$ 649,640</u> | <u>\$ 1,093,840</u> |

(15) Contingencies

The City is in the process of having a payroll tax audit conducted by the Internal Revenue Service. An issue has been raised during the audit process about the proper classification of volunteers, either as independent contractors or as City employees. This issue is being contested with the Internal Revenue Service and at this time, no reasonable estimate of any liability associated with the disputed issue is available.

Other Information

CITY OF ALGONA, IOWA

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

OTHER INFORMATION
YEAR ENDED JUNE 30, 2013

| | Governmental Funds Actual | Proprietary Funds Actual | Net |
|---|---------------------------------|--------------------------------|------------------|
| Receipts: | | | |
| Property tax | \$ 2,952,657 | - | 2,952,657 |
| Other city taxes | 942,239 | - | 942,239 |
| Licenses and permits | 38,544 | - | 38,544 |
| Use of money and property | 184,343 | 1,350 | 185,693 |
| Intergovernmental | 1,403,713 | - | 1,403,713 |
| Charges for service | 371,428 | 1,569,588 | 1,941,016 |
| Special assessments | 76,011 | - | 76,011 |
| Miscellaneous | 281,006 | - | 281,006 |
| | <u>6,249,941</u> | <u>1,570,938</u> | <u>7,820,879</u> |
| Disbursements: | | | |
| Program | | | |
| Public safety | 1,719,808 | - | 1,719,808 |
| Public works | 1,764,657 | - | 1,764,657 |
| Health and social services | 9,937 | - | 9,937 |
| Culture and recreation | 1,088,260 | - | 1,088,260 |
| Community and economic development | 271,367 | - | 271,367 |
| General government | 661,605 | - | 661,605 |
| Debt service | 520,892 | - | 520,892 |
| Capital projects | 642,656 | - | 642,656 |
| Business type activities | - | 1,576,690 | 1,576,690 |
| | <u>6,679,182</u> | <u>1,576,690</u> | <u>8,255,872</u> |
| Excess (deficiency) of receipts over disbursements | (429,241) | (5,752) | (434,993) |
| Other financing sources | <u>211,655</u> | <u>(206,227)</u> | <u>5,428</u> |
| Excess of receipts and other financing sources over (under) disbursements and other financing uses | (217,586) | (211,979) | (429,565) |
| Balance beginning of year | <u>4,917,998</u> | <u>1,590,874</u> | <u>6,508,872</u> |
| Balance end of year | <u>\$ 4,700,412</u> | <u>1,378,895</u> | <u>6,079,307</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final |
|------------------|-----------|--------------------|
| Original | Final | to Net Variance |
| 2,921,015 | 2,920,995 | 31,662 |
| 778,315 | 974,209 | (31,970) |
| 28,840 | 36,120 | 2,424 |
| 83,192 | 125,562 | 60,131 |
| 1,839,875 | 1,593,448 | (189,735) |
| 1,659,498 | 1,735,479 | 205,537 |
| 14,235 | 20,751 | 55,260 |
| 146,927 | 383,155 | (102,149) |
| 7,471,897 | 7,789,719 | 31,160 |

| | | |
|------------|-----------|-----------|
| 1,980,532 | 1,872,721 | 152,913 |
| 2,244,486 | 1,979,266 | 214,609 |
| 9,840 | 9,940 | 3 |
| 1,437,549 | 1,321,839 | 233,579 |
| 241,667 | 284,834 | 13,467 |
| 1,229,058 | 846,058 | 184,453 |
| 567,039 | 567,339 | 46,447 |
| 720,000 | 742,011 | 99,355 |
| 1,958,203 | 1,958,203 | 381,513 |
| 10,388,374 | 9,582,211 | 1,326,339 |

| | | |
|-------------|-------------|-----------|
| (2,916,477) | (1,792,492) | 1,357,499 |
| - | - | 5,428 |

| | | |
|-------------|-------------|-----------|
| (2,916,477) | (1,792,492) | 1,362,927 |
| 4,487,239 | 6,508,872 | - |
| 1,570,762 | 4,716,380 | 1,362,927 |

CITY OF ALGONA, IOWA

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2013

The budgetary comparison is presented as in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year, one budget amendment increased budgeted revenues by \$468,733 and decreased budgeted disbursements by \$655,252. The budget amendment is reflected in the final budgeted amounts. The City did not exceed the budget during the fiscal year ended June 30, 2013.

CITY OF ALGONA, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

| | Special Revenue | | | |
|---|-----------------|---------|-------------------|---------|
| | TIF | Library | Grow Algona Trees | Grants |
| Receipts: | | | | |
| Property tax | \$ 43,960 | - | - | - |
| Use of money and property | 42 | 1,673 | 5 | - |
| Intergovernmental | - | - | - | 26,973 |
| | 44,002 | 1,673 | 5 | 26,973 |
| Disbursements: | | | | |
| Public safety | - | - | - | - |
| Public works | - | - | - | 25,672 |
| Community and economic development | 44,412 | - | - | - |
| Debt Service | - | - | - | - |
| Capital Projects | - | - | - | - |
| | 44,412 | - | - | 25,672 |
| Excess (deficiency) of receipts over (under) disbursements | (410) | 1,673 | 5 | 1,301 |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | - | - | - | - |
| | - | - | - | - |
| Net change in cash balance | (410) | 1,673 | 5 | 1,301 |
| Balance beginning of year | 8,636 | 49,543 | 502 | (4,277) |
| Balance end of year | \$ 8,226 | 51,216 | 507 | (2,976) |
| Cash Basis Fund Balance | | | | |
| Nonspendable | \$ - | - | - | - |
| Restricted for: | | | | |
| Debt service | - | - | - | - |
| Capital projects | - | - | - | - |
| Other purposes | 8,226 | 51,216 | 507 | - |
| Unassigned | - | - | - | (2,976) |
| | \$ 8,226 | 51,216 | 507 | (2,976) |

See accompanying independent auditor's report.

| Special Revenue | | | Permanent | | |
|-----------------|------------------|--------------|-----------|---------|-----------|
| Police Pension | Capital Projects | Debt Service | Cemetery | Library | Total |
| 29,597 | - | 349,403 | - | - | 422,960 |
| 428 | 364 | 356 | 2,800 | - | 5,668 |
| - | - | - | - | - | 26,973 |
| 30,025 | 364 | 349,759 | 2,800 | - | 455,601 |
| 29,595 | - | - | - | - | 29,595 |
| - | - | - | - | - | 25,672 |
| - | - | - | - | - | 44,412 |
| - | - | 520,892 | - | - | 520,892 |
| - | 642,656 | - | - | - | 642,656 |
| 29,595 | 642,656 | 520,892 | - | - | 1,263,227 |
| 430 | (642,292) | (171,133) | 2,800 | - | (807,626) |
| - | 73,099 | 224,769 | - | - | 297,868 |
| - | (28,111) | - | - | - | (28,111) |
| - | 44,988 | 224,769 | - | - | 269,757 |
| 430 | (597,304) | 53,636 | 2,800 | - | (537,869) |
| 96,002 | 755,876 | 22,282 | 49,050 | 140,000 | 1,117,614 |
| 96,432 | 158,572 | 75,918 | 51,850 | 140,000 | 579,745 |
| - | - | - | 51,850 | 140,000 | 191,850 |
| - | - | 75,918 | - | - | 75,918 |
| - | 158,572 | - | - | - | 158,572 |
| 96,432 | - | - | - | - | 156,381 |
| - | - | - | - | - | (2,976) |
| 96,432 | 158,572 | 75,918 | 51,850 | 140,000 | 579,745 |

CITY OF ALGONA, IOWA

Schedule 2

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

| | Storm Sewer | Housing | Total |
|--|------------------|----------------|------------------|
| Receipts: | | | |
| Charges for service | 128,051 | 33,465 | 161,516 |
| | <u>128,051</u> | <u>33,465</u> | <u>161,516</u> |
| Disbursements: | | | |
| Operating | 35,467 | 20,741 | 56,208 |
| Total operating disbursements | <u>35,467</u> | <u>20,741</u> | <u>56,208</u> |
| Excess of receipts over disbursements | 92,584 | 12,724 | 105,308 |
| | <u>92,584</u> | <u>12,724</u> | <u>105,308</u> |
| Non-operating receipts (disbursements) | | | |
| Interest on investments | 92 | 164 | 256 |
| Capital expenditures | (141,242) | - | (141,242) |
| | <u>(141,150)</u> | <u>164</u> | <u>(140,986)</u> |
| Net change in cash balances | (48,566) | 12,888 | (35,678) |
| Balance beginning of year | <u>22,674</u> | <u>154,147</u> | <u>176,821</u> |
| Balance end of year | <u>(25,892)</u> | <u>167,035</u> | <u>141,143</u> |
| Cash Basis Fund Balance | | | |
| Unrestricted | <u>(25,892)</u> | <u>167,035</u> | <u>141,143</u> |
| | <u>(25,892)</u> | <u>167,035</u> | <u>141,143</u> |

See accompanying independent auditor's report.

CITY OF ALGONA, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2013

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|---------------------------------|------------------|----------------|-----------------------------|
| General obligation bonds/notes: | | | |
| Fire truck | March 1, 2010 | 4.15% | 180,000 |
| Capital Loan Notes 2012 | May 27, 2012 | 0.40 - 2.00% | 2,610,000 |
| LED Street Lighting | June 30, 2012 | 0.00% | 62,925 |
| Revenue bonds: | | | |
| Sewer revenue | October 13, 2010 | 3.00% | \$ 2,151,000 |

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|------------------------------|--------------------|-------------------------|------------------------|---------------|----------------------------|
| 68,443 | - | 68,443 | - | 710 | - |
| 2,610,000 | - | 285,000 | 2,325,000 | 28,244 | - |
| 62,925 | - | - | 62,925 | - | - |
| <u>\$ 2,741,368</u> | <u>-</u> | <u>353,443</u> | <u>2,387,925</u> | <u>28,954</u> | <u>-</u> |
| | | | | | |
| \$ 1,740,903 | - | 80,000 | 1,660,903 | 52,227 | - |
| <u>\$ 1,740,903</u> | <u>-</u> | <u>80,000</u> | <u>1,660,903</u> | <u>52,227</u> | <u>-</u> |

CITY OF ALGONA, IOWA

Schedule 4

BOND AND NOTE MATURITIES

JUNE 30, 2013

| Year Ending June 30, | GO Capital Loan | | LED AMU Loan | | Total GO Notes |
|----------------------------|---------------------|--------------|----------------------|-----------|-------------------|
| | Issued May 27, 2012 | | Issued June 30, 2012 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2014 | 0.60 | \$ 330,000 | 0.00 | \$ 10,487 | \$ 340,487 |
| 2015 | 0.80 | 335,000 | 0.00 | 10,487 | 345,487 |
| 2016 | 1.00 | 340,000 | 0.00 | 10,487 | 350,487 |
| 2017 | 1.15 | 350,000 | 0.00 | 10,487 | 360,487 |
| 2018 | 1.30 | 350,000 | 0.00 | 10,487 | 360,487 |
| 2019 | 1.50 | 350,000 | 0.00 | 10,490 | 360,490 |
| 2020 | 1.75 | 135,000 | 0.00 | - | 135,000 |
| 2021 | 2.00 | 135,000 | 0.00 | - | 135,000 |
| | | \$ 2,325,000 | | \$ 62,925 | 2,387,925 |

| Year Ending June 30, | Sewer Revenue Note | |
|----------------------------|---------------------|---------------------|
| | Issued Oct 13, 2010 | |
| | Interest Rates | Amount |
| 2014 | 3.00 | 83,000 |
| 2015 | 3.00 | 86,000 |
| 2016 | 3.00 | 89,000 |
| 2017 | 3.00 | 92,000 |
| 2018 | 3.00 | 95,000 |
| 2019 | 3.00 | 98,000 |
| 2020 | 3.00 | 101,000 |
| 2021 | 3.00 | 104,000 |
| 2022 | 3.00 | 107,000 |
| 2023 | 3.00 | 111,000 |
| 2024 | 3.00 | 115,000 |
| 2025 | 3.00 | 118,000 |
| 2026 | 3.00 | 122,000 |
| 2027 | 3.00 | 126,000 |
| 2028 | 3.00 | 130,000 |
| 2029 | 3.00 | 134,000 |
| 2030 | 3.00 | 139,000 |
| 2031 | 3.00 | 143,000 |
| | | <u>\$ 1,993,000</u> |

See accompanying independent auditor's report.

CITY OF ALGONA, IOWA

Schedule 5

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE TEN YEARS ENDED JUNE 30:

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|-------------------------------------|---------------------|---------------------|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Receipts | | | | | | | | | | |
| Property tax | \$ 2,908,697 | \$ 2,829,126 | \$ 2,811,560 | 2,539,420 | 2,427,831 | 2,348,778 | 2,345,875 | 2,333,853 | 2,220,318 | 2,136,239 |
| Tax increment financing collections | 43,960 | 70,701 | 57,154 | 97,021 | 165,357 | 76,675 | 78,557 | 56,343 | 49,579 | 27,690 |
| Other city tax | 942,239 | 799,088 | 888,095 | 796,892 | 831,293 | 845,597 | 802,527 | 710,103 | 692,992 | 530,389 |
| Licenses and permits | 38,544 | 33,571 | 27,437 | 32,830 | 23,795 | 37,173 | 35,972 | 29,319 | 30,038 | 27,685 |
| Use of money and property | 184,343 | 134,016 | 122,388 | 144,682 | 175,501 | 255,610 | 246,927 | 189,380 | 145,867 | 104,994 |
| Intergovernmental | 1,403,713 | 1,420,647 | 1,574,372 | 1,454,755 | 1,555,051 | 1,525,121 | 1,617,236 | 1,694,951 | 1,062,995 | 1,140,362 |
| Charges for service | 371,428 | 480,143 | 325,814 | 285,298 | 363,649 | 341,674 | 292,661 | 309,657 | 273,012 | 278,419 |
| Special assessments | 76,011 | 16,477 | 8,872 | 692 | 757 | - | 867 | 1,304 | 1,261 | 12,951 |
| Miscellaneous | 281,006 | 217,474 | 412,091 | 150,740 | 183,547 | 205,401 | 238,570 | 211,847 | 275,771 | 287,892 |
| | <u>\$ 6,249,941</u> | <u>\$ 6,001,243</u> | <u>\$ 6,227,783</u> | <u>5,502,330</u> | <u>5,726,781</u> | <u>5,636,029</u> | <u>5,659,192</u> | <u>5,536,757</u> | <u>4,751,833</u> | <u>4,546,621</u> |
| Disbursements | | | | | | | | | | |
| Operating: | | | | | | | | | | |
| Public safety | \$ 1,719,808 | \$ 1,435,578 | \$ 1,476,767 | 1,278,908 | 1,296,767 | 1,202,407 | 1,193,898 | 1,117,298 | 1,114,164 | 1,099,348 |
| Public works | 1,764,657 | 1,909,509 | 1,967,196 | 1,390,527 | 1,488,279 | 1,158,560 | 2,115,829 | 1,350,070 | 953,509 | 1,280,864 |
| Health and social services | 9,937 | 9,837 | 9,836 | 9,835 | 9,922 | 8,513 | 8,536 | 8,715 | 8,777 | 8,643 |
| Culture and recreation | 1,088,260 | 1,246,870 | 1,229,391 | 2,284,343 | 1,237,609 | 1,161,790 | 1,101,488 | 1,238,448 | 1,071,059 | 1,038,213 |
| Community and economic development | 271,367 | 122,506 | 204,887 | 247,162 | 377,632 | 773,642 | 226,215 | 809,924 | 490,037 | 126,692 |
| General government | 661,605 | 698,826 | 665,255 | 784,199 | 680,519 | 564,402 | 501,743 | 471,960 | 442,872 | 548,522 |
| Debt service | 520,892 | 286,575 | 429,332 | 405,343 | 406,113 | 401,195 | 395,745 | 425,935 | 461,951 | 405,699 |
| Capital projects | 642,656 | 74,199 | 245,709 | 177,795 | - | 10,443 | 195,709 | 507,361 | 1,339,544 | 1,314,552 |
| | <u>\$ 6,679,182</u> | <u>\$ 5,783,900</u> | <u>\$ 6,228,373</u> | <u>6,578,112</u> | <u>5,496,841</u> | <u>5,280,952</u> | <u>5,739,163</u> | <u>5,929,711</u> | <u>5,881,913</u> | <u>5,822,533</u> |

See accompanying independent auditor's report.

Supplementary Information

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2013

| January 1, 2011 Valuations (taxes payable July 1, 2012 to June 30, 2013) | | |
|---|-----------------------|----------------------------------|
| | 100% Actual Value | Taxable Value (with Rollback) |
| Residential | \$ 207,939,066 | \$ 109,826,117 |
| Commercial | 70,934,450 | 71,993,285 |
| Industrial | 25,068,083 | 25,078,083 |
| Railroad | 1,462,734 | 1,462,734 |
| Utilities | <u>2,570,902</u> | <u>2,570,902</u> |
| Gross valuation | 307,975,235 | 210,931,121 |
| Less military exemption | <u>(759,320)</u> | <u>(759,320)</u> |
| Net valuation | <u>\$ 307,215,915</u> | <u>\$ 210,171,801</u> |
| TIF increment (used to compute debt Service levies and constitutional debt limit) | 1,058,835 | 1,058,835 |
| Taxed separately | | |
| Agricultural land | 1,146,313 | 687,029 |
| Agricultural buildings | - | - |
| Gas and electricity utility property | 2,521,942 | 2,521,942 |

| 2011 Gross Taxable Valuation by Class of Property | | |
|---|-----------------------|----------------|
| | | Percent Total |
| Residential | \$ 109,826,117 | 52.07% |
| Commercial, Industrial, Utility* | 99,642,270 | 47.24% |
| Railroad | <u>1,462,734</u> | <u>.69%</u> |
| Total gross taxable valuation | <u>\$ 210,931,121</u> | <u>100.00%</u> |

* Includes gas and electric utility property, but excludes TIF increment, agricultural land, and agricultural buildings.

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2013

TREND OF VALUATIONS

| Assessment Year | Payable Fiscal Year | 100% Actual Valuation | Taxable Valuation (with Rollback) | TIF Increment |
|--------------------|------------------------|--------------------------|--------------------------------------|------------------|
| 2001 | 2002-03 | 207,007,532 | 138,858,537 | -0- |
| 2002 | 2003-04 | 211,020,084 | 140,989,805 | 961,789 |
| 2003 | 2004-05 | 233,517,198 | 147,382,559 | 1,637,765 |
| 2004 | 2005-06 | 239,356,724 | 151,498,721 | 1,742,646 |
| 2005 | 2006-07 | 242,328,824 | 149,283,934 | 2,417,969 |
| 2006 | 2007-08 | 246,806,639 | 152,910,185 | 2,435,229 |
| 2007 | 2008-09 | 269,385,874 | 160,425,731 | 5,308,825 |
| 2008 | 2009-10 | 276,104,066 | 170,491,449 | 2,976,528 |
| 2009 | 2010-11 | 304,558,329 | 191,959,012 | 1,735,178 |
| 2010 | 2011-12 | 313,169,791 | 203,067,551 | 2,217,349 |
| 2011 | 2012-13 | 304,528,219 | 204,084,859 | 1,433,762 |
| 2012 | 2013-14 | 307,975,235 | 210,931,121 | 1,058,835 |

The 100% Actual Valuations, before rollback, include agricultural land and buildings, TIF increment and gas and electric valuation. The Taxable Valuations, with the rollback and after the reduction of military exemption includes gas and electric valuation and excludes agricultural land and buildings and TIF increment. Iowa cities certify operating levies against taxable value excluding TIF increment, and debt service levies are certified against taxable value including TIF increment.

LARGER TAXPAYERS

| Taxpayer | Type of Property/Business | 01/01/12 Actual Valuation | 01/01/12 Taxable Valuation |
|-----------------------------------|------------------------------|------------------------------|-------------------------------|
| Snap-On Tools | Industrial & Agricultural | 6,390,609 | 6,065,425 |
| Pioneer Hi-Bred Corn Co. | Industrial | 5,679,591 | 5,395,611 |
| Druggists Mutual Insurance Co. | Commercial | 3,783,471 | 3,594,297 |
| Hjelmeland Family, LP | Commercial & Residential | 3,138,862 | 2,981,922 |
| Sears, Roebuck and Co. | Commercial | 2,736,864 | 2,600,022 |
| Hormel & Co. | Industrial & Commercial | 2,217,719 | 2,106,834 |
| Flint Hills Resources, LP | Industrial & Commercial | 2,215,855 | 2,105,063 |
| Evang Luth Good Samaritan Society | Residential | 2,135,628 | 2,135,628 |
| Algona Medical Clinic LLC | Commercial | 1,975,143 | 1,876,386 |
| SBEMCO International | Industrial | 1,931,319 | 1,834,753 |

CITY OF ALGONA, IOWA

SCHEDULE OF FINANCIAL INFORMATION
(UNAUDITED)
June 30, 2013

DIRECT DEBT

General Obligation Debt

| Date of Issue | Original Amount | Purpose | Principal Final Maturity | Outstanding as of 06/30/13 |
|------------------|--------------------|------------------------------|--------------------------------|-------------------------------|
| May 2012 | 2,610,000 | Street Improvement/Refunding | Jun 2021 | 2,325,000 |
| June 2012 | 62,925 | LED Street Lighting | Jun 2019 | 62,925 |
| Subtotal | | | | 2,387,925 |

Revenue Debt

The City has revenue debt outstanding payable solely from sewer revenues. This debt is not subject to the City's debt limit. The balance outstanding is as follows:

| Date of Issue | Original Amount | Purpose | Security | Final Maturity | Principal Outstanding as of 06/30/13 |
|------------------|--------------------|------------|---------------|-------------------|--|
| Oct 2010 | 2,151,000 | Sewer bond | Sewer revenue | Oct 2030 | 1,660,903 |

INDIRECT GENERAL OBLIGATION DEBT

| | 01/01/12 Taxable Valuation | Percent in City | General Obligation Debt | City's Proportionate Share |
|--------------------------------------|-------------------------------|--------------------|-------------------------------|----------------------------------|
| Kossuth County | 1,147,307,980 | 15.56% | - | - |
| Algona Community School District | 518,898,100 | 36.20% | - | - |
| Iowa Lakes Community College | 1,033,169,281 | 3.88% | - | - |
| City share of total overlapping debt | | | | - |

DEBT RATIOS

| | General Obligation Debt | Debt/Actual Market Value (\$211,230,636) | Debt / 5,508 Population |
|----------------------------------|-------------------------------|--|----------------------------|
| General Obligation Debt | 2,387,925 | 1.13% | 433.54 |
| City's share of overlapping debt | - | -0% | -0- |

TAX RATES

| | FY 08-09 /\$1,000 | FY 09-10 /\$1,000 | FY 10-11 /\$1,000 | FY 11-12 /\$1,000 | FY 12-13 /\$1,000 | FY 13-14 /\$1,000 |
|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Kossuth County | 5.99245 | 6.02397 | 5.82217 | 5.73605 | 5.26795 | 5.29693 |
| Agricultural Extension | .08540 | .08259 | .07224 | .06956 | .06583 | .06294 |
| Hospital | .33932 | .32818 | .33932 | .33932 | .33932 | .33932 |
| County Assessor | .31187 | .31975 | .36632 | .48113 | .32189 | .32189 |
| State of Iowa | .00350 | .00350 | .00340 | .00320 | .00330 | .00330 |
| Algona Comm School District | 11.03732 | 12.37567 | 12.38999 | 12.26228 | 11.76000 | 10.86363 |
| Area II Community College | .73979 | .75850 | .78134 | .76886 | .76795 | 1.05055 |
| City of Algona | 15.09369 | 14.81426 | 14.44359 | 14.03743 | 14.39940 | 13.78325 |
| Total Tax Rate City Resident | 33.60334 | 34.70642 | 34.21837 | 33.69783 | 32.92564 | 31.72181 |



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Algona, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 12, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Algona's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Algona's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Algona's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in I-A-13 in the Schedule of Findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Algona's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Algona's Responses to Findings

The City of Algona's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Algona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Algona during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

T.P. Anderson & Company, P.C.

February 12, 2014

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition- We noted that the cash receipt function and the recording of the cash receipts is on occasion handled by the same person. There is a lack of segregation of duties with respect to cash receipts and disbursements.

Cause – The City of Algona is not a large municipality; therefore their staff includes a small number of office employees.

Effect – The lack of a proper segregation of duties is a material weakness that may result in a material misstatement of the financial statements, and provides greater opportunity for fraudulent activity to go undetected.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We believe that we are close to the maximum degree of segregation of duties possible with the limited number of office employees. We will investigate additional procedures to cost-effectively improve internal control.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2013

Part II: Other Findings Related to Statutory Reporting:

- II-A-13 Certified Budget – Disbursements did not exceed the budget for the year ending June 30, 2013.
- II-B-13 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-13 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- II-D-13 Business Transactions - Chapter 362.5(10) of the Code of Iowa prohibits any city officer or employee from having a contract or job of work with the City. Exceptions are made to this regulation if the total annual purchase is less than \$1,500, or if the work was contracted under a competitive bid. Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title, and | | |
|---|------------------------------|----------|
| Business Connection | Transaction Description | Amount |
| Rick Remy, Council Member Owner of Sign Works, Ink | Screen printing and supplies | \$ 5,030 |

Condition – The transactions with Council Member Remy appear to be in violation of the Iowa Code, and are not covered under either of the aforementioned exceptions.

Cause – There are a limited number of merchants who are able to provide screen printing services.

Effect – Failure to bid the work properly may result in the City paying too much for a service, thereby failing to adequately fulfill their obligation to expend public money properly.

Recommendation – The City should consult with their attorney to see what action, if any, needs to be taken to remedy this situation.

Response – We will consult with our attorney.

Conclusion – Response accepted.

- II-E-13 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-H-13 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

CITY OF ALGONA, IOWA

SCHEDULE OF FINDINGS

Year Ended June 30, 2013

II-I-13 Telecommunications Utility - Algona Municipal Utilities, a component unit of the City, has been audited separately and its financial statements are under a separate cover. The report dated May 21, 2013 indicated that no instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

II-J-13 Financial Condition – A cash basis fund balance should not have a deficit fund balance in order to be considered in sound financial position.

Condition – The Grants Fund had a deficit balance at June 30, 2013 of \$2,976.

Cause – The timing of grant reimbursements causes a deficit fund balance in the Grant Fund from time to time.

Effect – The City reports on its financial statements a fund that does not appear to be in sound financial position.

Recommendation – The City should investigate all alternatives available to eliminate the deficit fund balance.

Response – Many grants the City receives do not correspond within the City's fiscal year. Depending upon the grant and when the City is reimbursed, there may be a deficiency. We will review alternatives to eliminate the deficit.

Conclusion – Response accepted.